

**City of Asheville, North Carolina**

**Comprehensive Annual Financial Report  
With Single Audit Compliance Supplements**

**Fiscal Year Ended June 30, 2005**

**Prepared by the Finance Department**

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Asheville,  
North Carolina

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Nancy L. Ziehl*

President

*Jeffrey R. Enen*

Executive Director

**CITY OF ASHEVILLE**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**JUNE 30, 2005**

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**CITIZENS OF ASHEVILLE**

**CITY COUNCIL**  
Charles R. Worley, Mayor  
Carl Mumpower, Vice-Mayor  
Joe Dunn  
Brownie Newman  
Holly Jones  
Terry M. Bellamy  
Jan Davis

**City Attorney**

**City Manager**

**City Clerk**

**Assistant City Manager**

**General Administration**

**Information Technology**

**Human Resources**

**Finance**

**Engineering**

**Civic Center**

**Building Safety**

**Planning & Development**

**Police**

**Public Works**

**Fire & Rescue**

**Parks & Recreation**

**Transit Services**

**Water Resources**

# City of Asheville

## MISSION STATEMENT

The City of Asheville is committed to delivering an excellent quality of service to enhance your quality of life.

## CORE VALUES

In order to achieve our mission of providing quality service to enhance the quality of life in Asheville, we adhere to the following core values:

### A

ccountability:

By being responsive and responsible to citizens and their elected representatives.

### S

ervice:

By treating those whom we serve with respect and dignity.

### H

onesty:

By providing accurate, truthful, and complete information.

### E

fficiency:

By constantly striving to use technology and innovation to provide the highest level of service for the lowest possible cost.

### V

ision:

By looking toward the future with a focus on creating a better Asheville.

### I

ntegrity:

By approaching our work honestly, ethically, and with sincerity.

### L

oyalty:

By diligently promoting and supporting the interests of the community we serve.

### L

eadership:

By being a model for quality service and professionalism in our community and throughout the nation.

### E

qual Opportunity:

By encouraging our diverse population to participate in the government of our city as citizens and employees.

*"Our Quality of Service, Your Quality of Life"*



# City of Asheville, NC

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Accounting Division

October 15, 2005

To the Honorable Mayor,  
Members of the Governing Council,  
and Citizens of the City of Asheville

State law requires that every general-purpose local government publish within six months of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2005.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Martin, Starnes & Associates, CPAs, P.A., Certified Public Accountants, have issued an unqualified ("clean") opinion on the City of Asheville's ("the City") statements for the year ended June 30, 2005. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis ("MD&A") immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

## ***Profile of Government***

The City, incorporated in 1797, is located in the western part of the state, which is considered to be the top growth area in the state, and one of the top growth areas in the country. Asheville currently occupies a land area of 43 square miles and serves a population of 73,739. The City is the county seat of Buncombe County, the largest city in Western North Carolina and tenth largest city in the State. Asheville is nestled between the Blue Ridge and Great Smoky Mountains and located astride the French Broad and Swannanoa Rivers. The City is surrounded by lush mountains, many with elevations above 5,000 feet. Asheville's natural and architectural beauty, moderate climate, strong job market and outstanding educational and health care facilities make it one of the most attractive locations in the United States. Asheville is consistently ranked high among the best places to live, work and retire. The City's long-range planning is directed toward preserving this area's high quality of life, so that it shall remain one of the "best places."

The City is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing council. The City operates under the council-manager form of government. Policy-making and legislative authority are vested in a governing council ("Council") consisting of the mayor and six other members. The council is elected on a non-partisan basis. Council members serve four-year staggered terms, with three council members elected every two years. The mayor is elected to serve a four-year term. The Council is responsible for adopting the budget and appointing the City Manager, City Attorney and City Clerk. The City Manager is responsible for implementing Council policies, City Ordinances, and managing daily operations and appointing department directors.

The City provides a full range of services, including police and fire protection; the construction and maintenance of streets, and other infrastructure; solid waste services, water service and recreational activities and cultural events. The financial reporting entity includes all the funds and account groups of the City of Asheville (primary government), as well as all of its component units. Component units are legally separate entities for which the government is financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and, as such, are included in the reporting entity. The Asheville Public Financing Corporation and the Asheville Claims Corporation are reported as blended component units. These organizations have no assets and liabilities and are not presented in the Basic Financial Statements. The Asheville Alcoholic Control Board is reported as a discretely presented component unit and is presented in a separate column in the Basic Financial Statements to emphasize that it is legally separate from the primary government and to distinguish its financial position, results of operations and cash flows from that of the primary government.

In government, much more than in private business, the budget is an integral part of a unit's accounting system and daily operations. The North Carolina General Statutes require all governmental units to adopt a balanced budget by July 1 of each year. The City's budget ordinance, passed by Council, creates a legal limit on spending authorizations. Capital projects funds and grant funds are budgeted, as permitted by statute, for the life of each individual project. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by fund or project total. For internal management purposes, the budget is detailed and compared to expenditures and encumbrances by line item within each department or project. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary controls. Encumbered amounts lapse at year-end. However, encumbrances are reappropriated in the following year's budget. Budgetary control is also facilitated by the use of an automated employee position classification system, which requires that every permanent position be budgeted.

### *Local economy*

The City is the regional center of manufacturing, transportation, health care, banking, professional services and shopping.

The economy is diverse, with strong representation in manufacturing, distribution, health care, retail trade and tourism. In addition to being an important indicator of overall local economic health, Buncombe County retail sales activity also directly impacts the City's general fund budget through sales tax receipts. Between FY 1994 and FY 1999, retail sales countywide grew at an average annual rate of 7.86%. However, the economic recession and its lingering effects caused retail sales growth to slow substantially between, FY2000 and FY2004 with annual growth averaging only 1.67% over this time period. Retail sales rebounded in FY 2004 (the most recent available data) with a 6.36% increase, the largest annual percentage increase since FY 1996.

Of the \$3.65 billion in retail sales recorded in Buncombe County during FY 2004, \$2.69 billion or 73% of those sales occurred within the City. Among the ten largest cities in North Carolina, Asheville had the highest level of retail sales per resident in FY 2004. This data reflects Asheville's position as the regional economic center for Western North Carolina. Asheville's high level of retail sales per resident is also likely associated with Asheville's status as a tourist destination.

Asheville's setting in the heart of a vast and beautiful recreational area has made tourism an important part of the local economy. The most recent data from the N.C. Department of Commerce indicate that domestic tourism in Buncombe County generated an economic impact of \$512.62 million in 2003, an increase of 2.6% compared to 2002. Buncombe County ranks 5<sup>th</sup> in travel impact among the state's 100 counties. Over 8,480 jobs in Buncombe County are directly linked to travel and tourism. Growth in hotel/motel sales is a good indicator of the status of the local tourist economy. Hotel/motel sales were flat in 2003, but rebounded in 2004 with growth of 6.2%. Data from the first five months of 2005 indicate that the growth in tourism has continued, with hotel/motel sales up 10.2% compared to the first five months of 2004.

The unemployment rate is a critical indicator of relative strength in the economy. Due to the economic slowdown, Buncombe County experienced higher unemployment rates over the last three years than it did during the late 1990's. As of June 2005, the county's unemployment rate stood at 4.6%. Local unemployment rates, however, are below both the statewide (5%) and national (4.9%) unemployment rates.

Between 1996 and 2005, the total employment in Buncombe County increased by 23,026 jobs or 12.0%. Asheville is currently experiencing employment growth rates above both the state and national averages. In 2005, average Buncombe County employment increased by 0.02%, reaching an all-time high of 191,573. The County's leading industry in terms of employment is health care and social assistance, which employed 19,700 people in 2004. Over the last 5 years, health services added twice as many jobs as any other sector.

Other leading industry sectors include retail trade, manufacturing, and accommodation and food services. Together these four sectors accounted for approximately 55% of all Buncombe County jobs in 2004. Despite the fact that it remains the third largest industry sector in Buncombe County, the manufacturing sector has experienced a significant decline in recent years. Over the last five years, local manufacturing employment has declined 22%.

According to the U.S. Bureau of Economic Analysis, the average annual wage per job in Buncombe County in 2003 as \$29,483. Buncombe County's average annual wage per job is below both the state (\$32,995.00) and national (\$37, 130) averages. The County's 2002 average wage per job is 89.4% of the state average and 79.4% of the national average; both percentages are down slightly from the prior year.

### ***Long-Term Financial Planning***

The Capital Improvement Program (CIP) is a six-year financing plan for infrastructure improvements, facility construction and improvement, and equipment acquisition. The City's emphasis on long-range capital improvement planning focuses attention on current and future needs of the community and on balancing those needs with the City's fiscal resources.

The CIP is updated annually based on input from Council, the public and City staff. The FY 2005 CIP was influenced by a number of other planning processes, including the City's long-range Strategic Operating Plan, the Unified Development Ordinance, the Parks & Recreation Master Plan, the Pedestrian Thoroughfare Plan, and the 1998 Parking Study.

In order to be included in the CIP, a capital item or construction project must have a useful life of more than one year and an initial cost of at least \$25,000. All capital items not meeting these criteria are included in the annual operating budget as capital outlay. The one exception to this rule is vehicles. All vehicle purchases, regardless of price, are included in the CIP.

The General Capital Reserve Fund provides funding for all general government capital needs. FY 2005 funding was provided by a \$2,566,100 pay-as-you-go contribution from the General Fund, \$1,468,000 in lease-purchase proceeds, and \$252,000 in funding from the N.C. Department of Transportation (NCDOT).

CIP items and projects in the Water Resources Operating & Capital Improvement Funds were funded with utility revenues generated by the Water Resources Operating Fund. The FY 2005 budget included \$1.7 million in capital improvement projects. In addition, \$243,625 was budgeted in FY2005 to replace capital equipment.

### ***Relevant Financial Policies***

As a recipient of federal and state assistance, the City is responsible for ensuring that adequate internal controls are in place to ensure compliance with applicable laws and regulations related to those programs. These internal controls are subject to periodic evaluation by management and the Finance Department staff of the City. As a part of the City's single audit requirements, tests are made to determine the adequacy of internal controls as well as to determine that the City has complied with applicable laws and regulations.

### ***Major Initiatives***

During the budget deliberations this year, Council voted to fund a Safe Neighborhoods Initiative. Key components of this initiative include, 1) hiring 5 additional police officers for the Asheville Community Enforcement Team; 2) making infrastructure improvements that support affordable housing development; 3) creating job opportunities and improving the educational performance of disadvantaged youths; and 4) enhancing community policing efforts. Council also decided to add an additional Public Works crew for new sidewalk installation.

Council funded the Safe Neighborhoods Initiative program and the additional sidewalk crew by reinstating the full recycling fee and shifting resources between various programs.

### ***Insurance Programs***

The City maintains "insurance programs" for certain general liability and casualty risks, fringe benefits and workers compensation obligations. Revenues and expenses for this program are recorded in the Risk and Benefits Management Division of the General Fund. For all of its self-insured retention programs, the City retains the services of outside third party administrators for the professional management and adjustments of claims. The City is protected by the placement of a \$15,000,000 excess-only liability program across the liability lines under the contract. The City also insures its real and property holdings, including its dams for a total of \$240,000,000 in assets. For the City's self-insured Workers Compensation and Employer Liability, the City retains out-of-pocket losses of \$300,000 on specific claims and an aggregate loss of \$3,600,000 over a three-year period. The City carries a \$3,000,000 specific and aggregate excess over these deductibles, with the aggregate excess attachment 75 percent of the annual loss over a three-year period.

### ***Awards and Acknowledgements***

The Governmental Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2004. This was the twenty-fifth time that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

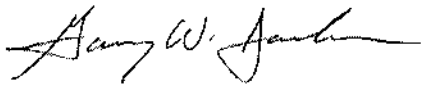
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the government also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for the fiscal year beginning July 1, 2004. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the City's Accounting Division as well as the cooperation of the other departments and divisions of the City. We would like to express our appreciation to all of these people for their contributions to this report. We would also like to thank the members of Council for their interest and support.

As required by North Carolina General Statute 159-34, a copy of this report will be filed with the Secretary of the North Carolina Local Government Commission. In addition, a copy will be sent to the City Clerk to be available for public inspection.

Respectfully submitted,



Gary W. Jackson  
City Manager



Benjamin C. Durant, III  
Chief Financial Officer-



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## Martin Starnes & Associates, CPAs, P.A.

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*A Professional Association of Certified Public Accountants and Management Consultants*

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### INDEPENDENT AUDITORS' REPORT

To The Honorable Mayor and  
Members of the City Council  
City of Asheville, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Asheville, North Carolina as of and for the year ended June 30, 2005 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the Asheville ABC Board. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Asheville ABC Board, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of Asheville ABC Board were not audited in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Asheville, North Carolina as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Schedules of Funding Progress and Employer Contributions are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards we have also issued our report dated September 29, 20055 on our consideration of City of Asheville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of City of Asheville, North Carolina taken as a whole. The introductory information, combining and individual nonmajor fund financial statements and schedules and the statistical tables, as well as the accompanying schedule of expenditures of federal and state awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory information and the statistical tables have not been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
September 29, 2005